

## WHY SHOULD A POSTSECONDARY INSTITUTION CONSIDER PARTNERING TO OFFER AN INDIVIDUAL DEVELOPMENT ACCOUNT (IDA)?

### 1. WHAT IS AN IDA?

IDAs are matched savings accounts that enable low-income families (i.e. families with incomes less than 200% of the poverty level) to save towards the purchase of an appreciating asset. The most common appreciating assets for IDAs are purchasing a first home, starting or capitalizing a small business, and paying for *postsecondary education or job training*.

Participants usually have 6 months to 3 years to save between \$500 and \$2,000, which can be matched 1:1 to 8:1 depending on the program.

### 2. WHO FUNDS AN IDA?

IDA initiatives are funded through federal and state as well as private funding. Most IDAs combine funding from federal, state, and private sources while some are completely privately funded.

The largest federal funder of IDAs is the Assets for Independence (AFI) Act which is administered through the Office of Community Services in Health and Human Services ([www.acf.hhs.gov/assetbuilding](http://www.acf.hhs.gov/assetbuilding)). AFI funding is available to community-based nonprofits and state, local, and tribal government agencies to offer asset development initiatives for low-income families. The state or sponsoring organization needs to raise an equal amount of non-federal funds to match those provided by the government, establish a partnership with local financial institutions to hold the IDA savings accounts, and offer financial education and asset training. Often IDA initiatives partner with other community organizations and institutions to do outreach, marketing, case management, and assist with matching the savings. There are more than 500 IDA programs with over 30,000 account holders around the country. You can find a directory of programs in your state at: <http://idanetwork.cfed.org>.

### 3. ARE IDAS JUST ABOUT MONEY?

While the match savings account is the centerpiece of an IDA, it has several other components which make it a successful program including training, counseling, case management, and financial education. Participants learn how to own and manage a bank account or credit card and how to access refundable tax credits. They also receive specialized training to help them purchase their asset goal.

### 4. WHY HAVEN'T I HEARD OF AN IDA?

IDAs are fairly new. IDAs were first introduced in several states in 1996, and in 1998 Congress passed the American Dream Demonstration. In 2002, through the Assets for Independence Act, Congress authorized \$125 million dollars to fund IDA demonstration projects. States have also developed IDA legislation. A summary of state policies can be found at: <http://gwbweb.wustl.edu/csd/policy/index1.htm>.

Initially, many programs focused on helping participants purchase first homes. However, as housing prices rise, purchasing homes has become more and more difficult. In addition, there is recognition that postsecondary education is an extremely important asset for low-income individuals to break the cycle of poverty. IDA practitioners are just now reaching out to postsecondary institutions in greater numbers. Most marketing has been through community-based nonprofit organizations.

## 5. THERE ARE SCHOLARSHIPS TO COVER LOW-INCOME STUDENT EXPENSES, SO WHY ARE IDAS NECESSARY?

Unfortunately, all of the money needed to go to college is not available through financial aid. Some portion of the tuition and other expenses, such as textbooks, a computer, and sometimes equipment for vocational programs are not covered at most institutions. The IDA can cover these types of costs which often prevent low-income students from attending or completing postsecondary education. Also, many low-income students, especially from immigrant or debt-laden families, fear additional debt. IDAs can cover the additional tuition and costs that might prevent them from having to consider debt.

## 6. WON'T LOW-INCOME STUDENTS BE PENALIZED IF THEY SAVE FOR COLLEGE BECAUSE THEY WILL RECEIVE LESS FINANCIAL AID?

Saving for college, especially with the added benefits of an IDA match, will always put low-income students ahead because they will have more money for school, less need for debt, and less need to work. IDA funds generally have no impact on the financial aid of families and students with income less than 200% of the poverty level.

The IDA savings account is a protected asset: 1) per AFI legislation, the AFI IDA savings account is exempt as an asset for determination of entitlement grants such as Pell and state funds; 2) other IDAs held in the name of a dependent student's parents or independent student are protected through the FAFSA zero or simplified needs test and/or asset protection allowance for IDA eligible families.

The federal and non-federal IDA matching funds are considered an outside resource, like any other scholarship, and assessed by each educational institution when determining the student's campus-based federal aid including Supplemental Educational Opportunity Grant, work study, Perkins loans, and other institutional grants and loans. Generally, institutions do not penalize low-income individuals for saving and accessing outside grant resources as it is counter to their philosophy of access. Almost every institution has special policies for their lowest-income students and there is also little evidence of IDA practitioners seeing an IDA negatively impact financial aid. In a few extreme cases where IDA savers also had an extraordinary amount of other outside scholarship resources, their federal work-study, and loan aid was decreased. In these cases, as with other scholarship funds, IDAs helped low-income students cover school costs with less debt and work obligations. Nevertheless, IDA practitioners will want to work with their educational institutions to understand approaches to the development of financial aid packages and how to handle IDAs.

We have more detailed analysis on financial aid and IDAs that can be found on our project website: [http://www.usc.edu/dept/chepa/IDApays/publications/financial\\_aid.pdf](http://www.usc.edu/dept/chepa/IDApays/publications/financial_aid.pdf).

Also, many times the money from the IDA will not be used for tuition (especially if financial aid covers costs), but will go to books, supplies, and equipment for course instruction.

## 7. ARE LOW-INCOME PEOPLE CAPABLE OF SAVING? HOW MUCH CAN THEY ACTUALLY SAVE FOR EDUCATION?

Yes, they are capable of saving. Research conducted on IDAs since the 1990s has demonstrated that with appropriate incentives low-income people can and do save.

However, low-income individuals in the U.S. do not usually have access to saving incentives that make economic sense. Middle- and upper-income individuals usually enjoy matching and tax incentives through their employers, which are not typically available to low-income employees. In addition, their individual circumstances can make saving extremely difficult, especially when emergencies occur.

If you are interested in reviewing research on IDAs please see the American Dream Demonstration reports: *Saving performance in the American Dream Demonstration* (2002) and *Evaluation of the American Dream Demonstration* (2004). Also, a variety of research is available at the Center for Social Development, New America Foundation, and Assets for Independence Act websites.

## 8. HOW MUCH CAN IDAS ACTUALLY HELP STUDENTS GET FOR EDUCATION?

IDAs usually encourage students to save a total of \$2,000 over 3 years. By matching savings, this can provide a

student with \$6,000. While this may not seem like a tremendous amount of money, it can often make the difference in being able to buy a computer, purchase books, or pay for tuition. But remember, money is only part of the advantage of an IDA. IDAs also create money management and savings behaviors that train IDA participants to become economically self-sufficient adults throughout their lifetime.

#### **9. WHY SHOULD SPECIAL FUNDING AND INITIATIVES FOR LOW-INCOME STUDENTS EXIST? EXACTLY WHAT IS THE INCOME OF THESE STUDENTS?**

Study after study demonstrates that low-income students are severely underrepresented in higher education. While over 50% of high-income students participate in college nationally, less than 18% of low-income students attend college. In fact, the attendance rate of low-income students appears to be declining rather than growing. Every institution needs to contribute to reverse these trends and increase the number of low-income students attending college.

IDA participants are in households that do not have assets that exceed \$10,000 in value and who meet one of the following income guidelines: Are eligible for the earned income tax credit or have total household income of less than two times the federal poverty level (approximately \$40,000 for a family of four in 2006).

#### **10. WHY ARE IDAS AN IMPORTANT TOOL TO HELP LOW-INCOME STUDENTS? TRIO PROGRAMS ARE ALREADY OFFERED.**

IDAs are an innovative tool to accomplish the goal of increasing success for low-income students. In many cases, IDAs can complement existing TRIO activities on campus by offering a new tool to help motivate and sustain student engagement in academics and by focusing on the financial impact of education. While TRIO is a comprehensive student support program, an IDA is simply a tool that offers financial education and financial aid. While some TRIO programs already offer financial education, others can be strengthened with the savings and grant component of an IDA. Each campus will want to evaluate how to best integrate the IDA tool into their existing services. For some it may fit well within the TRIO program and for others, it may fit better in student services or financial aid departments.

#### **11. WHAT BENEFITS ARE THERE TO ACCEPTING STUDENTS WHO HAVE BEEN SAVING FOR AN IDA?**

Good question. You are receiving motivated students who are more likely to complete their degree because they have made a financial investment. These students are also more likely to finish because they have thought about the additional costs, such as books and supplies, which contribute to the low-income student dropout rate. They know about credit card debt and are less likely to fall into that trap than are other unknowledgeable students. Increased retention and graduation of students, as well as stronger commitment equals greater success for your institution. Also, students are often receiving ongoing support from their IDA case manager.

This can help your institution meet its goals of opening access to new populations. IDAs also involve tracking of students. Enabling you to know their success rates and demonstrate this success to external stakeholders will provide greater accountability. Imagine the legislature or Board of Trustees' delight in discovering that you have worked to establish a program that helps address one of the perennial problems of higher education: increasing access for low-income students and having data to prove its success.

#### **12. WHAT ARE THE FINANCIAL IMPLICATIONS TO MY POSTSECONDARY INSTITUTION FOR PARTNERING TO OFFER IDAS? WHAT IF I WANT TO OFFER AN IDA OUT OF OUR INSTITUTION?**

Unlike TRIO, this is not a program but a tool for helping low-income students obtain access to postsecondary education so there is minimal direct funding for offering IDAs. AFI funds provide a nominal overhead charge to track students who take out IDA accounts. Typically, the nonprofit will offer this service and absorb the nominal revenue stream. However, a postsecondary institution with a 501(c)(3) affiliate can apply for an AFI grant directly if it wants to offer the full array of IDA services and functions. Even if they partner and do not apply for funds, the postsecondary institution will be able to maximize financial aid, scholarships, and tuition discounts by receiving match funds from AFI, state government, or private organizations as well as the student savings. Usually when a postsecondary institution partners, there are no direct financial benefits to the institution (unless they apply for AFI or state funds directly and do the administration). In rare cases, a postsecondary institution is offered a stipend from the nonprofit because of the extensive services the university offers on behalf of the nonprofit.

### 13. WHAT EXACTLY ARE THE COMPONENT PARTS OF ADMINISTERING AN IDA? IN WHICH AREAS CAN POSTSECONDARY INSTITUTIONS HELP MOST?

The process of offering the IDA typically involves the following functions:

- A. Create a network of partners to offer IDAs - contact partners such as credit unions, banks, non-profits, and others who can provide services, which might also entail including internal colleagues in financial aid, TRIO, and advising.
- B. Assess match funding options/opportunities:
  - 1. Contact various corporate and philanthropic sources to raise private funds or use scholarship dollars as match
  - 2. Apply for and manage state funds (if applicable)
  - 3. Apply for and manage federal AFI grant if your institution is affiliated with a 501(c)(3) or is a 501(c)(3)
- C. Partner with bank to offer IDAs - meet with a bank and establish a relationship to work with IDA clients and open accounts
- D. Market the IDA tool - advertise IDA to students on your campus
- E. Recruit IDA participants - identify and send materials to qualifying students who meet the income requirements and hold information sessions about IDAs
- F. Enroll IDA participants and provide an orientation - designate an office and staff member (or external partner) to take the lead in making sure students bring the proper paperwork, understand the program, and know about monthly payments, withdrawal restrictions, financial education requirements, and other aspects of the IDA
- G. Provide IDA account management - track participants' account information and activity (including purchases)
- H. Provide case management - monitor student savings and attendance of financial education
- I. Provide financial education - educate students on financial literacy
- J. Provide asset-specific education - educate students regarding the importance of attaining a higher degree, how to fill out financial aid forms, information on various postsecondary options and support services on campus, develop education plan.
- K. Make withdrawals for payment - work with appropriate partner and/or directly with a bank
- L. Close out the account - work with appropriate partner and/or directly with a bank

Postsecondary institutions partnering with a nonprofit makes the most sense because the nonprofits have systems set up to offer some of these functions. In most instances, nonprofits are looking for assistance from postsecondary institutions in recruiting participants as well as providing asset-specific education and case management. Postsecondary institutions seem best suited for these processes because they do not have to establish additional systems or processes. Academic advisors already provide asset-specific education, financial aid administrators can most easily recruit students since they understand gaps in funding and can identify the lowest income students; other support services can offer case management. In some cases, postsecondary partners might also find synergy in leveraging their scholarship dollars as the match funds for the IDA.

### 14. I THINK IDAS WOULD BE A GREAT TOOL FOR OUR SCHOOL. WHAT CAN I DO?

We are glad you are interested. Higher education partners can work with nonprofits to offer IDAs in a variety of ways.

First, think about how your school could integrate IDAs and what resources, human and financial, you have available to support them. You may be in the financial aid office, student services, admissions, TRIO, or another office. What can your office do to offer IDAs? In the best of worlds, a variety of offices across campus will work together to help offer IDAs to low-income students by providing the following:

- ◆ Outreach and marketing to incoming and enrolled students
- ◆ Non-federal match funds for student savings
- ◆ Financial education
- ◆ Advisement/counseling
- ◆ Access to campus and computers for high school students

Next, find and partner with an IDA practitioner. Look first in your community for a local community organization that is already offering IDAs and has IDA experience. Another option is to partner with a national organization like the United Way. Assess how you might be able to coordinate and partner with them to bring IDAs to your campus.

Here are some possible avenues to support low-income students through the IDA tool. While IDAs are best offered collaboratively, when multiple offices work together, these examples provide some specific ideas by functional area:

#### *Financial aid*

- A. Coordinate with the nonprofit agency to offer financial education to IDA participants while they are saving money.
- B. Help IDA practitioners to understand the FAFSA form and other financial aid details.
- C. Develop a memorandum of understanding with the nonprofit organization about how the IDA account will be handled.
- D. Create the student account to accept lump sum IDA investment.
- E. Provide enrollment reports about student progress to the nonprofit agency for their case management purposes or offer to oversee case management.
- F. Raise funds for match money, similar to other scholarship programs run by the institution.
- G. Integrate IDAs into financial aid packages and leverage available scholarship funds for low-income students with student savings.

#### *Student affairs and TRIO*

- A. Help students manage their accounts and ensure they do not withdraw money inappropriately.
- B. Consider offering a university-based IDA program in conjunction with TRIO programs. Because TRIO already offers orientation, counseling and training, an IDA program can partner with financial aid, admissions (who work to develop the match funds), and the entire IDA can be offered at the university.
- C. Consider offering a financial education curriculum to low-income students, potentially to all students.
- D. Use an IDA to encourage low-income students to stay in school. Student affairs can encourage students to save money earned from working during the last two years of college.

#### *Admissions*

- A. Help recruit participants for the program, particularly programs aimed at recruitment of students over the course of their studies.
- B. IDAs can be used as an outreach tool to attract low-income students to your institution.
- C. IDAs be used to identify low-income students who may have a greater success rate.

#### *College access professionals*

- A. Integrate financial education into the high school programs.
- B. Set up accounts for promising low-income students.
- C. Meet with parents to educate them about the IDAs as a family and community building tool.
- D. Educate various high school staff about IDAs and its potential.

### **15. DO YOU HAVE ANY EXAMPLES OF CURRENT PARTNERSHIPS BETWEEN POSTSECONDARY INSTITUTIONS AND NONPROFITS?**

We are currently meeting with various nonprofits and postsecondary institutions to assess their partnerships. Please refer to our website for updates on the examples we find:

<http://www.usc.edu/dept/chepa/IDApays/examples.html>

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Our project focuses on how IDAs can be used to increase low-income students' access to and retention in postsecondary institutions through partnerships. For more information on IDAs visit the Assets for Independence website at [www.acf.hhs.gov/programs/ocs/afi/](http://www.acf.hhs.gov/programs/ocs/afi/) and for a further description of our research project and to view other papers and tools we have written from this study, visit our website at <http://www.usc.edu/dept/chepa/IDApays/>.

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*About CHEPA*

The Center for Higher Education Policy Analysis (CHEPA) is an interdisciplinary research unit led by Director, William G. Tierney, and Associate Director, Adrianna Kezar. The Center was established to engage the postsecondary-education community actively, and to serve as an important intellectual center within the Rossier School of Education; it draws significant support and commitment from the administration. The Center's mission is to improve urban higher education, strengthen school-university relationships, and to focus on international higher education, emphasizing Latin America and the Pacific Rim. Working on fulfilling that mission are the Center's faculty, research assistants, and staff.

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